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U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

JUL 27 1999

Board of Directors  
Overseas Private Investment Corporation  
1100 New York Avenue, N.W.  
Washington, D.C. 20527

Dear Members of the Board:

In a letter dated November 15, 1997, Mr. George Munoz, President and Chief Executive Officer of the Overseas Private Investment Corporation (OPIC), requested a review of the financial solvency of OPIC. The review objectives were not agreed upon until September 1998.

We accomplished the review objectives by (1) conducting a quality control review of OPIC's 1998 financial statement audit report made by PricewaterhouseCoopers LLP, OPIC's independent public accountant; (2) analyzing OPIC's 1998 Annual Report; and (3) reviewing a 1997 report by the General Accounting Office concerning OPIC's reauthorization. Enclosed are the results of our review.

If we can be of further assistance, please contact me or have a member of your staff contact Mr. Toby Jarman, Assistant Inspector General for Audit, at (202) 712-1020.

Sincerely,

A handwritten signature in dark ink, appearing to read "J. Rush", is written over the typed name.

Jeffrey Rush, Jr.  
Inspector General

Enclosure: As stated

cc: Hattie Babbitt, Administrator (Acting)  
U.S. Agency for International Development



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

Memorandum Report No.  
0-000-99-006-F  
July 23, 1999

To the Board of Directors  
Overseas Private Investment Corporation  
1100 New York Avenue, N.W.  
Washington, D.C. 20527

Dear Members of the Board:

This memorandum report is the result of our review of the financial solvency of the Overseas Private Investment Corporation (OPIC), fiscal year ended September 30, 1998. We appreciate the courtesies extended to us during the review.

### **Background**

Pursuant to Section 8A(a)(2) of the Inspector General Act of 1978, as amended, and Section 239(e) of the Foreign Assistance Act of 1961, Mr. George Munoz, President and Chief Executive Officer of OPIC, requested us to conduct a review of the financial solvency of OPIC. The formal request consisted of five objectives, which are listed below. We answered those objectives by conducting a quality control review (QCR) of PricewaterhouseCoopers LLP (PWC) audit of OPIC's financial statements for fiscal year ended September 30, 1998, analyzing OPIC's 1998 Annual Report, and reviewing a 1997 report by the General Accounting Office (GAO) concerning OPIC's reauthorization.<sup>1</sup>

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<sup>1</sup>U.S. General Accounting Office Report No. GAO/USIAD-97-230, *Issues Related to Overseas Private Investment Corporation's Reauthorization*, dated September 30, 1997.

## Objectives

Our review objectives were as follows:

1. Does OPIC have sufficient liquid assets to meet its current liabilities?
2. Does OPIC have sufficient reserves to meet expected future losses on long-term contingent liabilities?
3. Does OPIC have the ability to generate sufficient future revenues from its programs to continue as a self-sustaining government corporation?
4. Does OPIC have mechanisms in place to mitigate the risks inherent in its programs?
5. Does OPIC's record in terms of historical claims, recoveries, and write-offs materially affect its ability to remain financially solvent?

As stated previously, we answered those objectives by conducting a QCR of PWC's audit of OPIC's financial statements for fiscal year ended September 30, 1998, analyzing OPIC's 1998 Annual Report, and reviewing the GAO Report.

## Results of Review:

### **Objective No. 1:**

#### **Does OPIC have sufficient liquid assets to meet its current liabilities?**

We believe that OPIC has sufficient liquid assets to meet its current liabilities.

For fiscal year ended September 30, 1998, the cash and marketable securities were \$3,570,654,000 and current liabilities were \$597,510,000 resulting in a quick ratio of approximately 6 times. The quick ratio is the ratio of cash and marketable securities to total current liabilities. Although the quotient is the dollars of cash and marketable securities available to cover each dollar of current debt, it is most frequently expressed as coverage of so many times. Hence, for every \$1 of current debt, OPIC has \$6 of current assets to cover it.

**Objective No. 2:**

**Does OPIC have sufficient reserves to meet expected future losses on long-term contingent liabilities?**

We believe that OPIC has sufficient reserves to meet expected losses on long-term contingent liabilities.

In fiscal year 1998, OPIC increased its reserves to \$3.3 billion. According to the GAO report, historically OPIC has generated sufficient revenues from its insurance and finance programs to cover its operating costs and the losses associated with its portfolio. The GAO report also states that the private sector's willingness to have greater involvement in some developing countries has created opportunities for OPIC to take steps to further reduce the risk associated with its portfolio through greater risk-sharing. To continue its efforts on reducing risk associated with its portfolio, OPIC is exploring options such as obtaining reinsurance from other providers, utilizing coinsurance, and insuring less than 90 percent of the value of each investment.

**Objective No. 3:**

**Does OPIC have the ability to generate sufficient future revenues from its programs to continue as a self-sustaining government corporation?**

We believe that OPIC has the ability to generate sufficient future revenues from its programs to continue as a self-sustaining government corporation.

According to the GAO Report, OPIC has historically been self-sustaining, generating substantial revenues from its finance and insurance programs and its investments that together have been sufficient to cover actual losses. For fiscal year ended September 30, 1998, OPIC earned a net income of \$138.8 million and increased its reserves to \$3.3 billion. For the 27<sup>th</sup> consecutive year, OPIC's profitable performance as an independent federal agency was at no cost to the taxpayer.

**Objective No. 4:**

**Does OPIC have mechanisms in place to mitigate the risks inherent in its programs?**

We believe that OPIC has mechanisms in place to mitigate risks inherent in its programs.

OPIC's risk management strategy includes maintaining reserves (\$3.3 billion reserves held largely in Treasury securities), limiting exposure in any one country, requiring pre-approval reviews, and establishing underwriting guidelines. According to OPIC's 1998 Annual Report, OPIC had active projects in 96 countries. The GAO report states that OPIC's diversification of projects by countries and sectors spreads the risk of one transaction across a number of different transactions, thereby isolating OPIC against the risk of one catastrophic event.

For fiscal year 1997, the aggregate liability for any one country's program activity accounted for no more than 15 percent of OPIC's portfolio. Thus, OPIC effectively protects itself against the adverse consequences of catastrophic events in any one country.

OPIC reviews every investment made by each fund to ensure compliance with OPIC's statutory and policy criteria, including the environmental impact, worker rights and U.S. economic effects of each investment. It reviews client compliance with finance and insurance agreements, independent assessment of the credit quality and performance of projects, careful review of all projects proposed for fund investments, advocacy to avert potential insurance claims, care in structuring workout arrangements and, sound underwriting principles. It considers the same factors that any commercial bank or insurance company would concerning the economics of a project under consideration for financing or insurance.

The GAO Report made a reference to J.P. Morgan Securities, Inc.'s, 1996 report on OPIC privatization which concluded that OPIC's reserves are extremely large relative to exposure by private sector standards and compared to OPIC's historical losses. Furthermore, analysts at J.P. Morgan Securities, Inc. see the reserves as adequate to cover OPIC's losses in all cases but an unprecedented disaster.

**Objective No. 5:**

**Does OPIC's record in terms of historical claims, recoveries, and write-offs materially affect its ability to remain financially solvent?**

We believe that OPIC's record in terms of historical claims, recoveries, and write-offs does not materially affect its ability to remain financially solvent.

OPIC's 1998 Annual Report indicates that it maintained a 95 percent recovery rate on insurance claims. Its credit policy is to take a senior security position in the assets of the projects or transactions it guarantees. The nature and recoverable value of the collateral pledged to OPIC varies from transaction to transaction and may include tangible assets, cash collateral or equivalents, and/or pledge of shares in the project company as well as personal and corporate guaranties. OPIC takes all necessary steps to protect its position in such collateral and retains the ability to enforce its rights as a secured lender if such action becomes necessary.

OPIC's statement before the United States Senate, dated May 7, 1998, indicates that OPIC engaged in several successful advocacy efforts on behalf of insurance clients involved in investment disputes with foreign governments. OPIC has provided advocacy for other clients in order to avert claims and help create investment climates overseas that are favorable to U.S. investors.

GAO reported that from inception through 1996, OPIC had about \$500 million in insurance claims and recovered all but \$11 million of this amount from the disposal of assets and recoveries from foreign governments. OPIC's revenues have exceeded its gross claims payments in all but 3 fiscal years, excluding recoveries that OPIC obtained after the claims were paid and liabilities were incurred but not reported. According to the GAO report, J.P. Morgan Securities, Inc., stated that OPIC's finance program has operated at a small loss or close to break even and that much of OPIC's profitability comes from interest earned on Treasury securities.

**Office of Inspector General (OIG) for USAID Quality Control**  
**Review of OPIC's 1998 Financial Statements Audit**

Our quality control review of PWC audit of OPIC's financial statements for fiscal year ended September 30, 1998, disclosed no matters that would negatively affect OPIC's financial solvency as measured by the previously stated objectives.

PWC issued its audit report on OPIC's financial statements (balance sheet, related statements of income, capital, and retained earnings, and of cash flows) for fiscal year ended September 30, 1998, on February 5, 1999. The PWC auditors issued an unqualified opinion on the financial statements. The auditor's opinion represents a judgement made after evidence about the assertions implicit in the financial statements have been evaluated. The opinion is intended to convey judgement, as opposed to a statement of fact. An unqualified opinion means that it is not qualified by any exceptions or uncertainties. An independent auditor issues an audit report with an unqualified opinion in the following circumstances:

- The audit was conducted with due professional care by independent persons with adequate training and proficiency.
- Sufficient evidence was obtained and evaluated to enable the auditor to reach an opinion on the degree to which the financial statements are presented fairly in conformity with generally accepted accounting principles.
- The financial statements are presented fairly in conformity with generally accepted auditing standards applied on a consistent basis.
- Informative disclosures in the body of the statements or in the notes to the statements are adequate.
- The financial statements are not affected by material uncertainties about future events that are not susceptible to reasonable estimation.

As required by government auditing standards, PWC issued a Report on Internal Control over Financial Reporting and a Report on Compliance with Laws and Regulations. The internal control report describes the auditor's scope of work in obtaining an understanding of the internal controls related to the financial statements and assessing control risk. These significant internal controls are established to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally acceptable accounting principles.

PWC noted no matters involving internal controls and their operation that they consider to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal controls does not reduce to a relatively low level of risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

PWC's Report on Compliance with Laws and Regulations describes its scope of work in testing for compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. PWC's compliance testing disclosed no instances of noncompliance that are required to be reported under government auditing standards.

### **Scope and Methodology**

We did not perform an audit of OPIC's financial books and records. We answered the review objectives by conducting a QCR of PWC's audit of OPIC's financial statements for fiscal year ended September 30, 1998, analyzing OPIC's 1998 Annual Report, and reviewing the GAO Report.

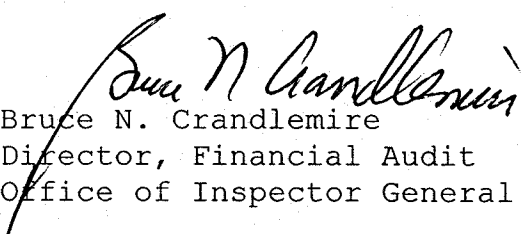


We used the USAID OIG Quality Control Review Guide (the Guide) as guidance for performing the quality control review procedures. The Guide is organized by the general and field work audit standards and required elements of a government audit. We focused our review on the following qualitative aspects of the audit: due professional care, planning, supervision, independence, quality control, peer review, internal control, substantive testing, compliance testing, and retesting certain transactions that were tested by PWC. The review was conducted at the offices of PWC, Arlington, Virginia, and OPIC, Washington, D.C.

We reviewed the GAO report to support our review objectives related to the reserves, ability to continue as a self-sustaining government corporation, mitigating risks, and to remain financially solvent. We used OPIC's 1998 Annual Report to compute the quick ratio, analyze its global portfolio by region and sector, note its important achievements in 1998, and review notes to and other disclosures in the financial statements.

If you have questions, please contact Mr. Jack P. Sword, Assistant Director, at (202) 712-4884.

Sincerely,



Bruce N. Crandlemire  
Director, Financial Audit  
Office of Inspector General

cc: PricewaterhouseCoopers LLP

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OVERSEAS PRIVATE INVESTMENT CORPORATION  
WASHINGTON, D.C. 20527, U.S.A.

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November 15, 1997

OFFICE OF THE  
PRESIDENT



Mr. J. Brian Atwood  
Acting Director  
International Development Cooperation Agency  
320 21<sup>st</sup> St., N.W., Room 5942  
Washington, D.C. 20523

Dear Mr. Atwood:

I am writing to you in your capacity as Acting Director of the United States International Development Cooperation Agency ("IDCA") to ask that, pursuant to Section 8A(a)(2) of the Inspector General Act of 1978, as amended, and Section 239(e) of the Foreign Assistance Act of 1961, as amended, you request the Inspector General of the United States Agency for International Development ("U.S. AID") to conduct a review of the financial solvency of the Overseas Private Investment Corporation ("OPIC"), based on the enclosed Scope of Work, and to report his findings and conclusions to the Board of Directors of OPIC. For your convenience, I have also enclosed a draft of a letter from you to the Inspector General, which should be sent along with the Scope of Work. *To OIC letter*

As you know, the Inspector General of U.S. AID may conduct reviews of OPIC's programs and operations when requested to do so by the Director of IDCA after consultation with the Administrator of U.S. AID.

We are aware that, under Section 239(e) of the Foreign Assistance Act of 1961, as amended, OPIC must reimburse U.S. AID for expenses incurred by the Inspector General in connection with the review requested. Accordingly, I ask that in your request you ask the Inspector General's Office to provide OPIC with an estimate of those expenses.

Thank you for your assistance in this matter.

Sincerely,

*George Muñoz*  
George Muñoz  
President and  
Chief Executive Officer

Enclosures

*To ACK letter*

## REVIEW OF OPIC's FINANCIAL SOLVENCY

### Scope of Work

### BACKGROUND

The Overseas Private Investment Corporation ("OPIC") was established by Congress in the Foreign Assistance Act of 1961, as amended (the "FAA"), as a wholly owned government corporation. The FAA further stipulates that OPIC is required to operate its programs on a self-sustaining, or financially solvent, basis. As a government corporation subject to the Government Corporation Control Act, OPIC is required to follow Generally Accepted Accounting Principles ("GAAP") in maintaining its financial records and preparing its annual financial statements. The purpose of the review is to determine if OPIC is in compliance with its legislative mandate to be financially solvent, on a GAAP basis.

### SCOPE

Accordingly, the Inspector General of U.S. AID is requested to address the following questions with the purpose of making findings and drawing conclusions as to OPIC's financial solvency:

1. Does OPIC have sufficient liquid assets to meet its current liabilities?
2. Does OPIC have sufficient reserves to meet expected future losses on long-term contingent liabilities?
3. Does OPIC have the ability to generate sufficient future revenues from its programs to continue as a self-sustaining government corporation?
4. Does OPIC have mechanisms in place to mitigate the risks inherent in its programs? (For example, does OPIC have insurance underwriting and credit assessment policies? Does OPIC diversify its portfolio on sectoral and geographic lines?)
5. How does OPIC's record in terms of historical claims, recoveries, and write-offs reflect on its financial solvency, and affect its ability to remain financially solvent?

## DRAFT

Mr. Jeffrey R. Rush, Jr.  
Inspector General  
United States Agency for International Development  
320 21<sup>st</sup> St., N.W.  
Room 5756NS  
Washington, D.C. 20523

Dear Mr. Rush:

Pursuant to Section 8A(a)(2) of the Inspector General Act of 1978, as amended, and Section 239(e) of the Foreign Assistance Act of 1961, as amended, I request that you conduct a review of the financial solvency of the Overseas Private Investment Corporation ("OPIC") based on the attached Scope of Work, and report your findings and conclusions to the Board of Directors of OPIC.

*To OIC  
letter  
address*

As you know, the Inspector General of the United States Agency for International Development ("U.S. AID") may conduct reviews of OPIC's programs and operations when requested to do so by the Director of the United States International Development Cooperation Agency ("IDCA") after consultation with the Administrator of U.S. AID. It is in my capacity as Acting Director of IDCA that I make the foregoing request. Coincidentally, of course, I am also the Administrator of U.S. AID, and the Chairman of the Board of Directors of OPIC.

Section 239(e) of the Foreign Assistance Act of 1961, as amended, requires that OPIC reimburse U.S. AID for expenses incurred in connection with the requested review. Please provide OPIC with an estimate of those expenses prior to commencing your review.

Please contact me if you have any questions.

Sincerely,

J. Brian Atwood  
Acting Director  
International Development Cooperation Agency

Enclosure